

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**

**REPORT ON FINANCIAL STATEMENTS  
(with required and additional information)**

**JUNE 30, 2007**

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## **INDEPENDENT AUDITORS' REPORT**

September 28, 2007

Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of Joseph K. Lumsden Bahweting Public School as of June 30, 2007, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated September 28, 2007 on our consideration of Joseph K. Lumsden Bahweting Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and required budgetary comparison information identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiring of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise School's basic financial statements. The combining and individual nonmajor fund financial statements and additional information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and additional information have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Certified Public Accountants

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

During 2006 – 2007 fiscal year, the Joseph K. Lumsden Bahweting Public School continued to present Governmental Accounting Standards Board Statement 34 (GASB 34), Basic Financial Statements – and Managements Discussion and Analysis – for State and Local Governments. This section of the School annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2007.

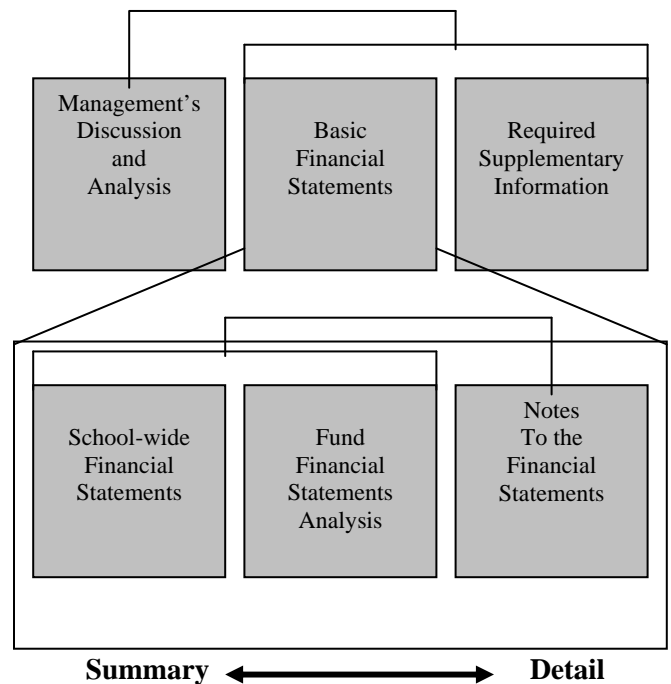
**Financial Highlights**

- The School's financial status improved this year. Total net assets increased by over 10% to approximately \$6.9 million compared to \$6.3 million last year.
- At the end of the current fiscal year, the fund balance in the General Fund was \$3,080,878.
- Student enrollment based on a blended count, increased by 4.0% to approximately 343 students.

**Overview of the Financial Statements**

This annual report consists of three parts: management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Public School.

**Figure A-1  
Required Components of  
The School's Annual Financial Report**



- The first two statements are School-wide financial statements that provide both long-term and short-term information about the School's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the School, reporting the School's operations in more detail than the government-wide statements.
  - The governmental funds statements tell how basic services like regular and special education were financed in the short-term as well as what remains for future spending.
  - Fiduciary fund statements provide information about the financial relationships in which the School acts solely as a trustee or agent for the benefit of others.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**OVERVIEW OF THE FINANCIAL STATEMENTS (Continued)**

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplemental information that further explains and supports the financial statements with a comparison of the School's budget for the years. Figure A-1 shows how the required parts of this annual report are arranged and relate to one another.

Figure A-2 summarizes the major features of the School's financial statements, including the portion of the School's activities they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

<b>Figure A-2</b> <b>Major Features of the School-Wide and Fund Financial Statements</b>			
	School-Wide Statements	Fund Statements	
		Governmental Funds	Fiduciary Funds
<b>Scope</b>	Entire School (except fiduciary funds)	The activities of the School that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the School is the trustee or agent for someone else's resources such as student activities monies
<b>Required Financial Information</b>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
<b>Accounting Basis and Measurement Focus</b>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<b>Type of Asset Liability Information</b>	All assets and liabilities, both financial and capital, and short- term and long- term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long- term; funds do not currently contain capital assets, although they can
<b>Type of Inflow/Outflow Information</b>	All revenues and expenses during year, regardless of when cash is received or paid.	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year regardless of when cash is received or paid.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**School-wide Statements**

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private sector companies. The statement of net assets includes all of the School's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's net assets and how they have changed. Net assets – the difference between the School's assets and liabilities – is one way to measure the Schools financial health or position.

- Over time, increases or decreases in the School's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School, you need to consider additional non-financial factors such as changes in the School's property tax base and the condition of school building and other facilities.

The government-wide financial statements of the School are:

- Governmental activities – Most of the School's basic services are included here, such as regular and special education, transportation and administration. Property taxes and state aid finance most of these activities.

**Fund Financial Statements**

The fund financial statements provide more detailed information about the School's funds, focusing on its most significant or "major" funds: not the School as a whole. Funds are accounting devices that the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by state law and by bond covenants.
- The School establishes other funds to control and manage money for particular purposes (such as repaying its long-term debts) or to show that it is properly using certain revenues.

The School has two kinds of funds:

- Governmental funds – Most of the School's basic services are included in governmental funds, which focus on (1) how much cash and other financial assets that can readily be converted to cash flow in and out and (2) The balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, this report includes reconciliation schedules that explain the relationship (or differences) between the School-wide Statements and the Fund financial Statements.
- Fiduciary funds – The School is trustee, or fiduciary, for assets that belong to others, such as student activities and scholarship funds. The School is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. We exclude these activities from the School's government-wide financial statements because the School cannot use these assets to finance its operations.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Financial Analysis of the School as a Whole**

Net Assets. The School's combined net assets were higher on June 30, 2007 than they were the year before, increasing more than 10% to approximately \$6,960,000. Figure A-3 illustrates the valuation of net assets on June 30, 2007 and 2006.

**Figure A-3**

*Condensed Statement of Net Assets*

	<u>2007</u>	<u>2006</u>
<b>Assets</b>		
Current	\$ 5,891,354	\$ 4,984,799
Non-current	<u>1,644,572</u>	<u>1,654,606</u>
Total assets	<u><u>\$ 7,535,926</u></u>	<u><u>\$ 6,639,405</u></u>
<b>Liabilities</b>		
Current	\$ 567,275	\$ 305,384
Non-Current	<u>5,510</u>	<u>5,352</u>
Total liabilities	<u>572,782</u>	<u>310,736</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,664,572	1,654,606
Unrestricted	<u>5,318,572</u>	<u>4,674,063</u>
Total net assets	<u>6,963,144</u>	<u>6,328,669</u>
Total liabilities and net assets	<u><u>\$ 7,535,926</u></u>	<u><u>\$ 6,639,405</u></u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Figure A-4**

***Results of Operations:***

	<u>2007</u>	<u>2006</u>
<b>Revenues:</b>		
Unrestricted state aid	\$ 2,443,908	\$ 2,251,060
BIA Grants	3,316,468	2,539,785
Investment earnings	275,775	202,732
Other revenues	15,646	153,542
Charges for services	43,197	40,691
Operating grants and contributions	<u>377,522</u>	<u>365,942</u>
Total revenues	<u>6,472,516</u>	<u>5,553,752</u>
<b>Expenditures:</b>		
Instruction	3,346,807	2,779,516
Support services	1,961,364	1,903,308
Food service	222,597	182,030
Athletics	22,402	
Depreciation	149,551	153,317
Other	<u>135,320</u>	<u>45,200</u>
Total expenditures	<u>5,838,041</u>	<u>5,063,371</u>
CHANGE IN NET ASSETS	<u><u>\$ 634,475</u></u>	<u><u>\$ 490,381</u></u>

The School's financial position is the product of many factors:

- The states per pupil funding allowance increased by \$210 this year from \$6,875 to \$7,085.
- Enrollment in the School increased by 14 (blended count) from 329 to 343.
- Revenues exceeded expenses by \$265,801 due to increases in federal and state revenues.

**Financial Analysis of the School's Funds**

As the Public School completed the year its governmental funds reported combined fund balances of \$4,121,823 increasing over last year's ending fund balance of \$3,891,813.

The School's expenses increased from prior year levels. The increase in expenditures is attributed to several factors such as, MPSERS retirement contribution increased from 16.37% to 17.74%, salary and wages increased for all staff, the district purchased a new school bus and the addition of a third 2<sup>nd</sup> grade. The Food Program experienced an increase in expenses as well. Several pieces of kitchen equipment were replaced.



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**General Fund Budgetary Highlights**

Over the course of the year, the School revised the annual operating budget two times. The budget amendments were for changes made at the end of the second quarter to account for final enrollment counts and changes made in assumptions since the original budget was adopted. Significant items causing budget adjustments are:

- Student membership increased providing an additional \$90,695 in State Aid.
- At-Risk and Middle School Math/Science revenues increased by \$9,447.
- Interest earnings on investments increased to reflect higher earnings.
- The School experienced an increase of \$284,152 in wages and benefits by issuing salary increases, hiring additional teachers and other staff to accommodate the enrollment increase and providing stipends to lead teachers.

At the end, actual expenditures were \$5,561,747 compared to \$5,672,428 budgeted, which represents a favorable budget variance of \$110,681.

Actual revenues were \$5,870,903 compared to \$5,964,920 budgeted, which represents an unfavorable budget variance of \$94,017.

**Capital Asset and Debt Administration**

**Capital Assets:**

By the end of 2007, the School had invested \$2,426,065 in a broad range of capital assets, including school buildings, software, busses, technology and electronic surveillance equipment.

The amount represents a \$139,517 increase from last year. During the year the School purchased a bus, cafeteria equipment and made some improvements to the grounds of the school.

Total depreciation expense for the year was \$149,551.

**Long Term Liabilities:**

Total long-term liabilities at June 30, 2007 was \$5,510, which consist of liability for accrued vacations.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2007**

**Factors Bearing on the School's Future**

The following factors have been considered in preparing the budget for the 2007/2008 school year:

- With the current economic condition in the State of Michigan, uncertainty surrounds the level at which Schools will be funded for the student foundation allowance for the 2007-2008 fiscal year.
- The School continues to face significant increases in rates for health insurance and retirement.
- Enrollment for 2007-2008 is expected to increase by approximately 80 students due to the construction of a 10-room modular building for 3-5<sup>th</sup> grades. The expansion allows the district to expand grades Kindergarten thru 2<sup>nd</sup> grade to accommodate students on a waiting list.
- Due to the increase in enrollment, the district purchased a new school bus, hired additional teachers, paraprofessionals and other support staff and set up a third 3<sup>rd</sup> grade.
- Building rent, utilities and other building expenses expected to increase during the 07-08 school year.

**Contacting the School's Financial Management**

This financial report is designed to provide the School's citizens, taxpayers, customers, and investors and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative office, Joseph K. Lumsden Bahweting Public School.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2007**

**ASSETS**

Current Assets:	
Cash and cash equivalents	\$ 4,905,114
Other Receivables	6,108
Due from other governmental units	959,821
Inventory and prepaid items	<u>20,311</u>
Total current assets	<u>5,891,354</u>
Noncurrent assets:	
Capital assets	2,426,065
Less: accumulated depreciation	<u>(781,493)</u>
Total noncurrent assets	<u>1,644,572</u>
	<u><u>\$ 7,535,926</u></u>

**LIABILITIES AND NET ASSETS**

Current liabilities:	
Accounts payable and other current liabilities	\$ 248,659
Salaries payable	315,923
Deferred revenue	<u>2,690</u>
Total current liabilities	567,272
Noncurrent liabilities:	
Compensated absences payable	<u>5,510</u>
Total liabilities	<u>572,782</u>
Net Assets:	
Invested in capital assets, net of related debt	1,644,572
Unrestricted	<u>5,318,572</u>
Total Net Assets	<u>6,963,144</u>
	<u><u>\$ 7,535,926</u></u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2007**

Functions/Programs	Expenses	Program Revenues			Net (expenses) And changes in Net assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Total
Governmental activities:					
Instruction and Instructional Services	\$ 3,346,807	\$	\$ 284,415	\$	\$ (3,062,392)
Supporting services	1,961,364				(1,961,364)
Payments to other districts	135,320				(135,320)
Food service	222,597	43,197	93,107		(86,293)
Athletic activities	22,402				(22,402)
Depreciaton (Unallocated)	149,551				(149,551)
Total governmental activities	<u>\$ 5,838,041</u>	<u>\$ 43,197</u>	<u>\$ 377,522</u>	<u>\$</u>	<u>(5,417,322)</u>
<b>General revenues:</b>					
Unrestricted state aid					2,443,908
Interest and investment earnings					275,775
BIA Grant					3,316,468
Other general					<u>15,646</u>
Total General revenues					<u>6,051,797</u>
CHANGES IN NET ASSETS					634,475
Net assets – beginning of year					<u>6,328,669</u>
Net assets – end of year					<u>\$ 6,963,144</u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**BALANCE SHEETS**  
**GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and cash equivalents	\$ 3,832,587	\$ 1,012,328	\$ 60,199	\$ 4,905,114
Receivables:				
Accounts	1,407		4,701	6,108
Due from other funds				
Due from other governmental units	957,440		2,381	959,821
Prepaid expenses	17,647			17,647
Inventory			2,664	2,664
	<u>\$ 4,809,081</u>	<u>\$ 1,012,328</u>	<u>\$ 69,945</u>	<u>\$ 5,891,354</u>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued expenses	\$ 210,030	\$	\$ 38,629	\$ 248,659
Salaries payable	315,923			315,923
Deferred revenue	1,202,250		2,699	1,204,949
	<u>1,728,203</u>		<u>41,328</u>	<u>1,769,531</u>
Total liabilities	<u>1,728,203</u>		<u>41,328</u>	<u>1,769,531</u>
Fund balances:				
Designated for:				
Capital projects		1,012,328		1,012,328
Other	2,402,062			2,402,062
Unreserved:				
Undesignated	678,816		28,617	707,433
	<u>3,080,878</u>	<u>1,012,328</u>	<u>28,617</u>	<u>4,121,823</u>
Total fund balances	<u>3,080,878</u>	<u>1,012,328</u>	<u>28,617</u>	<u>4,121,823</u>
	<u>\$ 4,809,081</u>	<u>\$ 1,012,328</u>	<u>\$ 69,945</u>	<u>\$ 5,891,354</u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
WITH THE STATEMENT OF NET ASSETS  
JUNE 30, 2007**

**Amounts reported for governmental activities in the statement of net assets are different because:**

<b>Total Fund Balance - Governmental Funds</b>		<b>\$ 4,121,823</b>
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
	The cost of capital assets is \$	2,426,065
	Accumulated depreciation is	<u>(781,493)</u> 1,644,572
Deferred revenue recognized as current revenue		1,202,259
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of:		
	Compensated absences (vacations)	<u>(5,510)</u>
<b>Total net assets - governmental activities</b>		<b><u><u>\$ 6,963,144</u></u></b>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
<b>REVENUES:</b>				
Local sources	\$ 225,123	\$ 50,652	\$ 43,197	\$ 318,972
State sources	2,521,801		8,881	2,530,682
Federal sources	3,108,333		84,226	3,192,559
Other sources	15,646			15,646
<b>Total revenues</b>	<b>5,870,903</b>	<b>50,652</b>	<b>136,304</b>	<b>6,057,859</b>
<b>Instruction:</b>				
Basic instruction	2,288,379			2,288,379
Added needs	1,058,270			1,058,270
<b>Total Instruction</b>	<b>3,346,649</b>			<b>3,346,649</b>
<b>Support Services:</b>				
Pupil services	59,691			59,691
Instructional staff	151,276			151,276
General Administration	438,381			438,381
School Administration	130,662			130,662
Business	489,665			489,665
Operations and Maintenance	573,096			573,096
Transportation	237,007			237,007
Food service			243,700	243,700
Athletic activities			22,402	22,402
<b>Total support services</b>	<b>2,079,778</b>		<b>266,102</b>	<b>2,345,880</b>
<b>Payments to other governmental units</b>	<b>135,320</b>			<b>135,320</b>
<b>Total expenditures</b>	<b>5,561,747</b>		<b>266,102</b>	<b>5,827,849</b>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<b>309,156</b>	<b>50,652</b>	<b>(129,798)</b>	<b>230,010</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Operating transfers in	6,114		49,469	55,583
Operating transfers out	(49,469)	(6,114)		(55,583)
<b>Total other financing sources (uses)</b>	<b>(43,355)</b>	<b>(6,114)</b>	<b>49,469</b>	
<b>NET CHANGES IN FUND BALANCES</b>	<b>265,801</b>	<b>44,538</b>	<b>(80,329)</b>	<b>230,010</b>
<b>FUND BALANCE - beginning of year</b>	<b>2,815,077</b>	<b>967,790</b>	<b>108,946</b>	<b>3,891,813</b>
<b>FUND BALANCE - End of year</b>	<b>\$ 3,080,878</b>	<b>\$ 1,012,328</b>	<b>\$ 28,617</b>	<b>\$ 4,121,823</b>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE TO THE  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2007**

<b>Total net change in fund balances - governmental funds</b>	<b>\$</b>	<b>230,010</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

	Capital Outlays	139,517	
	Depreciation Expense	<u>(149,551)</u>	(10,034)

In the statement of activities, certain compensated absences (vacations) and special termination benefits are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by essentially the amounts actually paid. The amounts included in the statement of activities are:

	Compensated absences (vacations)	(158)
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Grant revenue is not considered "available governmental funds" but is considered earned and recognized as revenue

	<u>414,657</u>
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<b>Change in net assets governmental activities</b>	<b>\$</b>	<b><u>634,475</u></b>
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See notes to financial statements.



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
STATEMENT OF FIDUCIARY NET ASSETS  
TRUST AND AGENCY FUNDS  
JUNE 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
<b>ASSETS</b>		
Cash	<u>\$ 11,235</u>	<u>\$ 1,922</u>
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable	<u>\$ 11,235</u>	<u>\$ 1,922</u>

See notes to financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Charter School – The Charter School was organized under Act 362 of the Michigan Public Acts of 1993. This Act allows for this School to be eligible for State Aid and must comply with the Michigan School Code provisions. The School operates under a grant agreement with the Board of Control – Northern Michigan University. The School was created to provide a learning experience which includes Ojibwa culture, values and traditions. The School's agreement with Northern Michigan University will expire on June 30, 2010.

The general purpose financial statements of Joseph K. Lumsden Bahweting Public School (the Joseph K. Lumsden Bahweting Public School) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the School's accounting policies are described below.

**A. Reporting Entity**

In evaluating how to define the School, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP, currently GASB Statement #14, *The Financial Reporting Entity*.

Based on the application of these criteria, the general purpose financial statements of School contain all the funds and account groups controlled by the School's Board of Education as no other entity meets the criteria to be considered a blended component unit or a discretely presented component unit of the School nor is the School a component unit of another entity.

**B. Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the school School. For the most part, the effect of the interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. The School has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from the goods, services or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. General grants and other items not properly included among program revenues are reported instead as *general revenues*.

The School first utilizes restricted resources to finance qualifying activities.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provided have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences are recorded only when a payment is due.

The Joseph K. Lumsden Bahweting Public School reports the following major governmental funds:

The *general fund* is the School's primary operating fund. It accounts for all financial resources of the School, except those required to be accounted for in another fund.

The *capital projects fund* accounts for the acquisition or construction of major capital projects.

Additionally, the School reports the following fund types:

The *special revenue funds* are used to account for the proceeds of specific revenue sources that are restricted to expenditures for specified purposes. The School Lunch Fund and Athletic Program Fund are considered special revenue funds.

The *agency fund* is custodial in nature and does not present the results of operations or have a measurement focus. Agency funds are accounted for using the modified accrual basis of accounting. This fund is used to account for assets that the School holds for others in an agency capacity (primarily student activities).

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Measurement Focus, Basis of Accounting and Basis of Presentation (continued)**

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Property taxes, state foundation revenue, interest and charges for services are susceptible to accrual. Other receipts become measurable and available when cash is received by the School and are recognized as revenue at that time. State and federal revenues are recognized as follows:

**State Foundation Revenue**

The State of Michigan utilizes a foundation grant approach which provides for a specific annual amount of revenue per student based on a state-wide formula. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school Schools based on information supplied by the Schools. For the year ended June 30, 2007 the foundation allowance was based on the pupil membership counts taken in February and September 2006.

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes, which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period and is funded through payments from October 2006 to August 2007. Thus, the unpaid portion at June 30<sup>th</sup> is reported as due from other governmental units.

**Categorical**

The School also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

**Federal Revenue**

Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, Liabilities and Equity**

**1. Cash and investments**

The Joseph K. Lumsden Bahweting Public School reports its investments in accordance with GASB Statements No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under these standards, certain investments are valued at fair value as determined by quoted market prices, or by estimated fair values when quoted market prices are not available. The standards also provide that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed, such as certificates of deposit, and the School intends to hold the investment until maturity.

State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above.

**2. Short-term Interfund Receivables/Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the balance sheet.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**C. Assets, Liabilities and Equity (continued)**

**3. Inventories and Prepaid Items**

Inventories are valued at the lower of cost (first-in, first-out) or market. Inventories in the special revenue funds consisting of expendable supplies held for consumption, are recorded as expenditures when consumed rather than when purchased. Inventories for commodities are recorded as revenue when utilized and are not included as a reservation of fund balance.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

**4. Capital Assets**

Capital assets, which include property, plant, equipment are reported in the government-wide financial statements. Capital assets are defined by the School as assets with an initial individual cost of more than \$5,000 and an estimated useful life of more than one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donations.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment of the Joseph K. Lumsden Bahweting Public School is depreciated using the straight line method over the following estimated useful lives:

Buildings	50 yrs
Building and site improvements	20 yrs
General equipment	10-15 yrs
Vehicles	8 yrs
Office furniture and fixtures	7 yrs
Computer equipment	5 yrs

**5. Compensated Absences**

Accumulated vacation and sick pay amounts which are expected to be liquidated with expendable available resources (generally sixty days) are recorded in the general fund while the remainder of the liability is recorded in the school-wide financial statements.

**6. Unemployment Insurance**

The School reimburses the State of Michigan for the actual amount of unemployment benefits disbursed by the State on behalf of the School. Billings are received for amounts paid by the State through June 30 are accrued.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**7. Fund Balance**

The unreserved fund balances for governmental funds represent the amount available for budgeting future operations. The reserved fund balances for governmental funds represent the amount that has been legally identified for specific purposes or indicates that a component of assets does not constitute “available spendable resources.” The designated fund balances for governmental funds represent tentative plans for future use of financial resources.

**8. Use of Estimates**

The process of preparing general purpose financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenditures. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

- A. Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriations budgets are adopted for the general, special revenue and debt service funds. All annual appropriations lapse at fiscal year end.

The School maintains a formalized encumbrance accounting system.

The School follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means of financing them. The level of control for the budgets is at the functional level as set forth in the combined statement of revenues, expenditure and changes in fund balances – budget and actual – GAAP basis – general, special revenue and debt service funds.
2. Public hearings are conducted to obtain taxpayer comments.
3. Prior to July 1, the budget is legally adopted by the School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will be less than anticipated or so that expenditures will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, or in excess of the amount appropriated. Any expenditures in violation of the Budgeting Act are disclosed as unfavorable variances on the combined statement of revenues, expenditures and changes in fund balance – budget and actual – GAAP basis – general, special revenue and debt service funds.
4. The Superintendent is authorized to transfer budgeted amounts between major expenditure functions within any fund; however, these transfers and any revisions that alter the total expenditures of any fund must be approved by the School Board.
5. Formal budgetary integration is employed as a management control device during the year for the general fund.
6. The budget as presented, has been amended. Supplemental appropriations were made during the year with the last one approved prior to June 30<sup>th</sup>.



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK**

Cash and cash equivalents are held separately in the name of the School by each of the School's funds.

**Deposits**

At year-end, the carrying amount of the School's deposits were \$337,875 and the bank balance was \$514,417 of which \$111,235 was covered by federal depository insurance and \$403,182 was uninsured and uncollateralized. The School has \$100 in petty cash on hand.

**Investments**

The School had the following investments as of June 30, 2007:

	<u>Maturities</u>	<u>Cost</u>	<u>Fair Value</u>
U.S. Treasury Bill	07/05/07	\$ 249,862	\$ 249,688
U.S. Treasury Bill	07/12/07	249,622	249,453
U.S. Treasury Bill	07/19/07	249,385	249,219
U.S. Treasury Bill	07/26/07	249,145	249,063
U.S. Treasury Bill	08/02/07	248,902	248,750
U.S. Treasury Bill	08/09/07	248,680	248,594
U.S. Treasury Bill	08/16/07	248,444	248,359
U.S. Treasury Bill	08/16/07	198,812	198,688
U.S. Treasury Bill	08/23/07	248,200	248,125
U.S. Treasury Bill	08/30/07	148,784	148,734
U.S. Treasury Bill	09/06/07	99,094	99,063
U.S. Treasury Bill	09/13/07	247,518	247,422
U.S. Treasury Bill	09/20/07	197,829	197,688
U.S. Treasury Bill	09/27/07	148,233	148,172
U.S. Treasury Bill	10/04/07	98,739	98,688
U.S. Treasury Bill	10/04/07	148,132	148,031
U.S. Treasury Bill	10/11/07	147,994	147,891
U.S. Treasury Bill	11/01/07	147,622	147,468
U.S. Treasury Bill	11/08/07	122,903	122,773
U.S. Treasury Bill	11/15/07	294,703	294,281
U.S. Treasury Bill	11/23/07	343,388	343,251
U.S. Treasury Bill	11/29/07	245,071	244,973
<b>Total</b>		<u><u>\$ 4,581,062</u></u>	<u><u>\$ 4,578,374</u></u>

The above securities are rated Aaa by Moody's and AAA by Standard and Poors.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3 – DEPOSITS, INVESTMENTS AND CREDIT RISK - continued**

*Interest Rate Risk* – The School will monitor interest rate risk by using and analyzing, segmented time distribution, specific identification and time duration of investments, limiting its investment portfolio to one year or less.

*Credit Risk* - State statutes authorize the School to invest in bonds and other direct and certain indirect obligations of the U.S. Treasury; certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank, saving and loan association, or credit union, which is a member of the Federal Deposit Insurance Corporation, Federal Savings and Loan Insurance Corporation, or Nation Credit Union Administration, respectively; in commercial paper rated at the time of purchase within the three highest classifications established by not less than two standard rating services and which mature not more than 270 days after the date of purchase. The School is also authorized to invest in U.S. Government or federal agency obligation repurchase agreements, bankers' acceptances of U.S. banks, and mutual funds composed of investments as outlined above. The School has no investment policy that would further limit its investment choices.

*Concentration of Credit Risk* – The School policy places no limit on the amount the School may invest. The School may invest 100% of its available reserve in U.S. Treasury securities and those securities completely guaranteed by the Treasury. Investments in other types of authorized securities may be made at no more than 25% of total current investment portfolio. The total current investment portfolio consists of one type of security.

A reconciliation of cash as shown on the combined balance sheet follows:

Cash on hand	\$ 100
Carrying amount of deposits	337,875
Investments	<u>4,578,374</u>
Total	<u><u>\$ 4,916,349</u></u>
Cash and cash equivalents:	
Governmental activities	\$ 4,905,114
Fiduciary funds	<u>11,235</u>
Total	<u><u>\$ 4,916,349</u></u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4 – RECEIVABLES**

Receivables at June 30, 2007 consist of the following:

Governmental units	\$ 959,821
Other	<u>6,108</u>
	<u><u>\$ 965,929</u></u>

Amounts due from governmental units include amounts due from federal, state and local sources for various projects and programs. Because of the School's favorable collection experience, no allowance for doubtful accounts has been recorded.

**NOTE 5 – LONG-TERM LIABILITIES**

The Schools employment policy provides for School staff who are classified as regular, full or part time, have completed required probationary periods, and work year around to accrue vacation according to the following:

1. Salaried employees earn fifteen (15) days for the first year of employment and on additional day per year of service thereafter, up to a maximum of thirty (30) days per year.
2. Hourly employees earn ten (10) days for the first year of employment and one additional day per year of service thereafter.

A summary of accrued compensated absences at June 30, 2007 is as follows:

	Beginning	Additions	Deletions	Ending
Vacation	<u>\$ 5,352</u>	<u>\$ 158</u>	<u>\$</u>	<u>\$ 5,510</u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 – DISCLOSURE OF INFORMATION ABOUT CAPITAL ASSETS**

Capital asset balances and activity for the year ended June 30, 2007 were as follows:

	<u>Beginning of year</u>	<u>Additions</u>	<u>Retirements/ Reclassifications</u>	<u>End of year</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,122	\$	\$	\$ 25,122
Capital assets, being depreciated				
Land improvements	\$ 113,447	\$	\$	\$ 113,447
Leasehold improvements	660,154	29,430		689,584
Buildings and improvements	1,047,883	14,845		1,062,728
Furniture, fixtures, & equipment	156,225	26,545		182,770
Vehicles	283,717	68,697		352,414
Total historical cost	<u>\$ 2,261,426</u>	<u>\$ 139,517</u>	<u>\$</u>	<u>\$ 2,400,943</u>
Less accumulated depreciation:				
Land improvements	\$ 31,273	\$ 5,936	\$	\$ 37,209
Leasehold improvements	169,634	41,280		210,914
Buildings and improvements	250,220	54,290		304,510
Furniture, fixtures, & equipment	67,209	19,006		86,215
Vehicles	113,606	29,039		142,645
Total accumulated depreciation	<u>\$ 631,942</u>	<u>\$ 149,551</u>	<u>\$</u>	<u>\$ 781,493</u>
Governmental activities capital assets, net	<u>\$ 1,654,606</u>			<u>\$ 1,644,572</u>

Depreciation for the fiscal year ended June 30, 2007 amounted to \$149,551. the School determined that it was impractical to allocated depreciation to the carious governmental activities as the assets serve multiple functions.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7 – GOVERNMENTAL FUND TYPE INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2007 were as follows:

<u>Fund Transferred Out</u>	<u>Fund Transferred In</u>	<u>Amount</u>
General fund	Food Service fund	\$ 27,067
General fund	Athletic Activities	22,402
Capital Projects	General fund	<u>6,114</u>
		<u>\$ 55,583</u>

**NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN**

Plan Description – The School contributes to the statewide Michigan Public School Employees' Retirement System (MPSERS), a cost sharing multiple-employer defined benefit pension plan administered by the nine member board of the MPSERS. The MPSERS provides retirement benefits and postretirement benefits for health, dental and vision. The MPSERS was established by Public Act 136 of 1945 and operated under the provisions of Public Act 300 of 1980, as amended. The MPSERS issues a publicly available financial report that includes financial statements and required supplementary information for MPSERS. That report may be obtained by writing to Michigan Public School Employees Retirement System, P.O. Box 30026, Lansing, Michigan 48909 or by calling (517) 322-6000.

Funding Policy – Member Investment Plan (MIP) members enrolled in MIP prior to January 1, 1990 contribute a permanently fixed rate of 3.9% of gross wages. The MIP contribution rate was 4.0% from January 1, 1987, the effective date of the MIP, until January 1, 1990 when it was reduced to 3.9%. Members first hired January 1, 1990 or later and returning members who did not work between January 1, 1987 through December 31, 1989 contribute at the following graduated permanently fixed contribution rate: 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 – EMPLOYEE RETIREMENT SYSTEM – DEFINED BENEFIT PLAN - continued**

Basic plan members make no contributions. For a limited period ending December 31, 1992, an active Basic Plan member could enroll in the MIP by paying the contributions that would have been made had enrollment occurred initially on January 1, 1987 or on the date of hire, plus interest. MIP contributions at the rate of 3.9% of gross wages begin at enrollment. Market rate interest is posted to member accounts on July 1<sup>st</sup> on all MIP monies on deposit for 12 months. If a member leaves MPSERS service and no pension is payable, the member's accumulated contribution plus interest, if any, are refundable.

The School is required to contribute the full actuarial funding contribution amount to the pension benefits, plus an additional amount to fund retiree health care benefit amounts on a cash disbursement basis. The rates for the year ended June 30, 2007 were 17.39%. The contribution requirements of plan members and the School are established and may be amended by the MPSERS Board of Trustees. The School contributions to MPSERS for the year ended June 30, 2007, 2006 and 2005 were \$424,527, \$345,000 and \$227,623 respectively, equal to the required contribution for each year.

The School is not responsible for the payment of retirement benefits, which is the responsibility of the State of Michigan.

Other Postemployment Benefits – Under the MPSERS' Act, all retirees have the option of continuing health, dental and vision coverage.

**NOTE 9 – RISK MANAGEMENT**

The School is exposed to various risk of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School participates in two distinct pools of educational institutions within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered Public entity risk pools. The School pays annual premiums to each pool for the respective insurance coverage. In the event a pool's total claims and expenses for one policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessments to make up the deficiency. Each of the pools maintain reinsurance for claims in excess of \$500,000 for each occurrence with the overall maximum coverage being unlimited. The School has not been informed of any special assessments being required.

The School continues to carry commercial insurance for other risks of loss, including employee health and accident insurance.

**NOTE 10 – LEASES**

The School leases the main building from the Sault Ste. Marie Tribe of Chippewa Indians on an operating lease ending June 30, 2012. Monthly payments are \$14,347.

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 11 – FUND BALANCE DESIGNATIONS**

The fund balance as of June 30, 2007 has been designated as follows:

General fund:	
Interest earned 2005/2006	\$ 70,255
Interest earned prior years	631,807
Unemployment compensation	800,000
Contract settlements	500,000
Land purchase	50,000
New school furnishing	<u>350,000</u>
	<u>\$ 2,402,062</u>
Capital Projects fund:	
Future projects	<u>\$ 1,012,328</u>

Interest earned on the BIE grant funds during the year ended June 30, 2007 totaled \$117,857, this amount has not been designated by the School Board at this time.

## **REQUIRED SUPPLEMENTARY INFORMATION**



**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES – BUDGET AND ACTUAL – GAAP BASIS  
YEAR ENDED JUNE 30, 2007**

	Budgeted Amounts			Variance with Final Budget- Favorable (unfavorable)
	Original	Final	Actual	
Local sources	\$ 76,000	\$ 184,100	\$ 225,123	\$ 41,023
State sources	2,335,599	2,511,201	2,521,801	10,600
Federal sources	2,745,113	3,255,531	3,108,333	(147,198)
Other sources		14,088	15,646	1,558
Total revenues	5,156,712	5,964,920	5,870,903	(94,017)
EXPENDITURES:				
Instruction:				
Basic instruction	1,540,548	2,354,867	2,288,379	66,488
Added needs	1,409,098	1,062,275	1,058,270	4,005
Total Instruction	2,949,646	3,417,142	3,346,649	70,493
Support Services:				
Pupil services	197,260	60,005	59,691	314
Instructional staff		151,892	151,276	616
General Administration	313,682	447,156	438,381	8,775
School Administration	157,749	131,478	130,662	816
Business	518,144	495,383	489,665	5,718
Operations and Maintenance	547,935	590,827	573,096	17,731
Transportation	175,300	241,225	237,007	4,218
Total support services	1,910,070	2,117,966	2,079,778	38,188
Payments to other governmental units	516,500	137,320	135,320	2,000
Total expenditures	5,376,216	5,672,428	5,561,747	110,681
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(219,504)	292,492	309,156	16,664
OTHER FINANCING SOURCES (USES):				
Operating transfers in			6,114	6,114
Operating transfers out		(183,021)	(49,469)	133,552
Total other financing sources (uses)		(183,021)	(43,355)	139,666
NET CHANGES IN FUND BALANCES	\$ (219,504)	\$ 109,471	265,801	\$ 156,331
FUND BALANCES:				
Beginning of year			2,815,077	
End of year			\$ 3,080,878	

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**NOTE 1 – BUDGETARY COMPARISON SCHEDULES**

Joseph K. Lumsden Bahweting Public School is not legally required to present budgetary information for capital project fund. Accordingly, the budgetary comparison schedules for the Capital Project fund is not required.

## **ADDITIONAL INFORMATION**

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**JUNE 30, 2007**

	Special Revenue Funds			Nonmajor Governmental Funds
	Food Service	Athletic Activities	Total	
<b>ASSETS</b>				
Cash and cash equivalents	\$ 60,199	\$	\$ 60,199	\$ 60,199
Receivables:				
Accounts	4,701		4,701	4,701
Due from other funds				
Due from other governmental units	2,381		2,381	2,381
Inventory	2,664		2,664	2,664
Prepaid Expenses				
	<u>\$ 69,945</u>	<u>\$</u>	<u>\$ 69,945</u>	<u>\$ 69,945</u>
Liabilities:				
Accounts payable and accrued expenses	\$ 38,629	\$	\$ 38,629	\$ 38,629
Checks written in excess of deposits				
Due to other funds				
Salaries payable				
Deferred revenue	<u>2,699</u>	<u></u>	<u>2,699</u>	<u>2,699</u>
Total liabilities	<u>41,328</u>	<u></u>	<u>41,328</u>	<u>41,328</u>
Fund balances:				
Designated - debt service				
Undesignated	<u>28,617</u>	<u></u>	<u>28,617</u>	<u>28,617</u>
Total fund balances	<u>28,617</u>	<u></u>	<u>28,617</u>	<u>28,617</u>
	<u>\$ 69,945</u>	<u>\$</u>	<u>\$ 69,945</u>	<u>\$ 69,945</u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue Funds			Nonmajor Governmental Funds
	Food Service	Athletic Activities	Total	
REVENUES:				
Local sources:				
Lunch and milk sales	\$ 43,197	\$	\$ 43,197	\$ 43,197
Admission and other				
Interest				
State sources	8,881		8,881	8,881
Federal sources	84,226		84,226	84,226
USDA donated commodities				
Total revenues	<u>136,304</u>		<u>136,304</u>	<u>136,304</u>
EXPENDITURES:				
Food service	243,700		243,700	243,700
Athletic activities		22,402	22,402	22,402
Total expenditures	<u>243,700</u>	<u>22,402</u>	<u>266,102</u>	<u>266,102</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	<u>(107,396)</u>	<u>(22,402)</u>	<u>(129,798)</u>	<u>(129,798)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	<u>27,067</u>	<u>22,402</u>	<u>49,469</u>	<u>49,469</u>
Total other financing sources (uses)	<u>27,067</u>	<u>22,402</u>	<u>49,469</u>	<u>49,469</u>
EXCESS (DEFICIENCY) OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING (USES)	<u>(80,329)</u>		<u>(80,329)</u>	<u>(80,329)</u>
FUND BALANCES, beginning of year	<u>108,946</u>	<u>-</u>	<u>108,496</u>	<u>108,496</u>
FUND BALANCES, end of year	<u>\$ 28,617</u>	<u>\$</u>	<u>\$ 28,617</u>	<u>\$ 28,617</u>

**JOSEPH K. LUMSDEN BAHWETING PUBLIC SCHOOL  
TRUST AND AGENCY FUND  
STATEMENT OF RECEIPTS AND DISBURSEMENTS  
FOR THE YEAR ENDED JUNE 30, 2007**

	Balance 07/01/06	Additions	Reductions	Balance 06/30/07
Student council	\$ 135	\$	\$	\$ 135
Dance	726	3		729
Service learning	742	180		922
8 <sup>th</sup> grade	45	9,294	2,500	6,839
Donation		980	979	1
Drum	50	1		51
Jump rope		2,110	2,110	
6 <sup>th</sup> grade	128	51		179
7 <sup>th</sup> grade	96	122		218
HSAT		2,606	445	2,161
	<u>1,922</u>	<u>15,347</u>	<u>6,034</u>	<u>11,235</u>
Total	\$ 1,922	\$ 15,347	\$ 6,034	\$ 11,235

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL**

**ADDITIONAL REPORTS REQUIRED BY**

**OMB CIRCULAR A-133**

**YEAR ENDED JUNE 30, 2007**

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Certified Public Accountants

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF THE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE  
WITH *GOVERNMENT AUDITING STANDARDS***

September 28, 2007

To the Board of Education  
Joseph K Lumsden Bahweting Public School  
Brimley, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K Lumsden Bahweting Public School as of and for the year ended June 30, 2007, which collectively comprise the Joseph K Lumsden Bahweting Public School's basic financial statements and have issued our report thereon dated September 28, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered Joseph K Lumsden Bahweting Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Joseph K Lumsden Bahweting Public School, in a separate letter dated September 28, 2007.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Joseph K Lumsden Bahweting Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which would have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants



**REPORT ON COMPLIANCE WITH REQUIREMENTS  
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL  
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

September 28, 2007

To the Board of Education  
Joseph K Lumsden Bahweting Public School  
Brimley, Michigan

Compliance

We have audited the compliance of Joseph K Lumsden Bahweting Public School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2007. Joseph K Lumsden Bahweting Public Schools' major federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of Joseph K Lumsden Bahweting Public School's management. Our responsibility is to express an opinion on Joseph K Lumsden Bahweting Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Joseph K Lumsden Bahweting Public School's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Joseph K Lumsden Bahweting Public School's compliance with those requirements.

In our opinion, Joseph K Lumsden Bahweting Public School complied, in all material respects, with the requirements referred to above that are applicable each of its major federal programs for the year ended June 30, 2007.

#### Internal Control Over Compliance

The management of Joseph K Lumsden Bahweting Public School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contract and grants applicable to federal programs. In planning and performing our audit, we considered Joseph K Lumsden Bahweting Public School's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more on the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

#### Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Joseph K Lumsden Bahweting Public School as of and for the year ended June 30, 2007, which collectively comprise the Joseph K Lumsden Bahweting Public School's basic financial statements and have issued our report thereon dated September 28, 2007. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the Joseph K Lumsden Bahweting Public School's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not required as part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the board of education, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specific parties.

Certified Public Accountants

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/06	Adjust- ments	Current Year Receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/07
<u>U.S. Department of Education</u>									
<i>Direct Awards:</i>									
Titl VII-Indian Education	84.060	S060A021230	\$ 49,959	\$	\$	\$	\$ 35,706	\$ 49,959	\$ 14,253
 <i>Pass-through from the U.S. Department of Interior, Bureau of Indian Affairs;</i>									
Education of the Handicapped (IDEA)	84.027	GTF60X50A6	975,022		(72,023)		504,235	579,922	3,664
Title II-Improving America's Schools Act	84.367	GTF60X50A6	4,100				4,100	4,100	
Title IID-Improving America's Schools Act	84.318	GTF60X50A6	50,200				50,200	50,200	
Title IV-Improving America's Schools Act	84.186	GTF60X50A6	15,200				15,200	15,200	
Title I-Improving America's Schools Act	84.010	GTF60X50A6	325,000				325,000	325,000	
Total Pass-through BIA			1,369,522		(72,023)		898,735	974,422	3,664
 <i>Pass-through Michigan Department of Education:</i>									
Title I-Improving Basic Programs	84.010	615300607	76,683				43,820	76,683	32,863
Title V-Innovative Ed. Program Strategies	84.298	602500607	597				408	597	189
Technology Literacy Challenge Grant	84.318	642900607	787				731	787	56
Title IIA-Improving Teacher Quality	84.367	905200607	3,996				3,265	3,996	731
Total Pass-through MDOE			82,063				48,224	82,063	33,839
Total U.S. Department of Education			1,501,544		(72,023)		982,665	1,106,444	51,756
 <u>U.S. Department of Interior</u>									
<i>Direct Awards (Bureau of Indian Affairs):</i>									
Indian School Equalization Program	15.042	GTF60X50A6	1,045,100	1,727,327			1,037,400	1,002,279	(42,821)
Operations/Maintenance	15.042	GTF60X50A6	452,212		(82,044)		452,212	324,871	(209,385)
Transportation	15.042	GTF60X50A6	109,300				107,700	107,700	
Admin Cost Grant	15.047	GTF60X50A6	274,526		(633,515)		274,526	426,719	(481,322)
Infant and Toddler	15.043	GTF60X50A6	135,320	45,200			135,320	135,320	
Total U.S. Department of Interior			2,016,458	1,772,527	(715,559)		2,007,158	1,996,889	(733,528)

Federal grantor/pass-through grantor/ program title	Federal CFDA number	Pass- through grantor's number	Award Amount	Prior year Expenditures	Accrued (Deferred) Revenue 6/30/06	Adjust- ments	Current year receipts	Current year Expenditures	Accrued (Deferred) Revenue 6/30/07
<u>U.S. Department of Agriculture</u>									
<i>Pass-through Michigan Department of Education</i>									
National School Lunch Program-Section 4	10.555	61950	1,294				1,294	1,294	
National School Lunch Program-Section 4	10.555	71950	8,945				8,705	8,945	240
National School Lunch Program-Section 11	10.555	61960	6,810				6,810	6,810	
National School Lunch Program-Section 11	10.555	71960	46,680				45,466	46,680	1,214
National School Lunch-Breakfast	10.553	61970	373				373	373	
National School Lunch-Breakfast	10.553	71970	20,124				19,197	20,124	927
USDA Commodities Entitlement	10.550				(21)				(21)
Total Pass-through MDOE			<u>84,226</u>		<u>(21)</u>		<u>81,845</u>	<u>84,226</u>	
Total U.S. Department of Agriculture			<u>84,226</u>		<u>(21)</u>		<u>81,845</u>	<u>84,226</u>	<u>2,360</u>
 U.S. Department of National Endowment <u>For the Humanities</u>									
<i>Pass-through Institute of Museum and Library Services</i>									
Native American Library Services	45.311	NG0106-0106	<u>5,000</u>					<u>5,000</u>	<u>5,000</u>
<b>Total Expenditures of Federal Awards</b>			<u><u>\$ 3,607,228</u></u>	<u><u>\$ 1,772,527</u></u>	<u><u>\$ (787,603)</u></u>	<u><u>\$</u></u>	<u><u>\$ 3,071,668</u></u>	<u><u>\$ 3,192,559</u></u>	<u><u>\$ (674,412)</u></u>

The accompanying notes are an integral part of this schedule

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL  
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2007**

NOTES:

1. Basis of presentation – The accompanying schedule of expenditures of federal awards includes the grant activity of Joseph K Lumsden Bahweting Public School and is presented on the modified accrual basis of accounting. The information in the schedule is presented in accordance with OMB Circular A-133 and reconciles with the amounts presented in the preparation of the general purpose financial statements.
2. Indian School Equalization Program CFDA #15.042, Administrative Cost Grant CFDA #15.047, Special Education IDEA CFDA #84.027 & Title I CFDA #84.010 were audited as major programs, representing 89.1% of expenditures.
3. The threshold for distinguishing Type A and Type B programs was \$300,000.
4. Management has utilized the Grant Section Auditors Report (Form R7120) in preparing the Schedule of Expenditures of Federal Awards.
5. Federal expenditures are reported as revenue in the following funds in the general purpose financial statements:

General fund	\$ 3,108,333
Special revenue funds	<u>84,226</u>
Total Federal Awards	<u><u>\$ 3,192,559</u></u>

6. Joseph K Lumsden Bahweting Public School was not determined to be a low-risk auditee.

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007**

**Section I – Summary of Auditors' Results**

***Financial statements***

Type of auditors' report issued:

*Unqualified*

Internal control over financial reporting:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Noncompliance material to financial statements noted?

☐ Yes ☒ No

***Federal Awards***

Internal control over major programs:

- Material weakness(es) identified: ☐ Yes ☒ No
- Reportable condition(s) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

Type of auditors' report issued on compliance for major programs:

*Unqualified*

Any audit finding disclosed that are required to be reported with Section 510(a) of Circular A-133?

☐ Yes ☒ No

Identification of major programs:

CFDA Number(s)

15.042  
15.047  
84.010  
84.027

Name of Federal Program

Indian School Equalization Program  
Administrative Cost Grant  
Title I  
Special Education IDEA

Dollar threshold used to distinguish between type A and type B programs:

\$300,000

Auditee qualified as low-risk auditee?

☐ Yes ☒ No



**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
YEAR ENDED JUNE 30, 2007  
(Continued)**

**Section II – Financial Statement Findings**

None

**Section III – Federal Award Findings and Questioned Costs**

None

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL  
SCHEDULE OF PRIOR AUDIT FINDINGS**

**Section II – Financial Statement Findings**

***Noncompliance with State Statutes***

**Expenditures in Excess of Appropriations**

***Finding 06-1***

*Statement of Condition/Criteria:* Public Act 621 of 1978 requires that expenditures cannot be incurred until appropriated in accordance with the Uniform Budgeting and Accounting Act. During the fiscal year ended June 30, 2006, the school incurred expenditures in excess of amounts appropriated as follows.

<u>Fund/Function/Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund:			
BIA/Headstart-Pass Thru	\$	\$ 45,200	\$ (45,200)

*Effect:* The School has not complied with various State Statutes.

*Cause of Condition:* Unknown

*Recommendation:* The Board should monitor and amend the budget as deemed necessary.

- Contact Person(s) Responsible for Correction:  
Nick Olsheski, School Administrator
- Corrective Action Planned:  
The budget will be more closely monitored and budget amounts will be made Accordingly.
- Anticipated Completion Date:  
The corrective procedures are in place.

*Status:* Management and the Board of Education have been more diligent regarding budget amendments.

**JOSEPH K LUMSDEN BAHWETING PUBLIC SCHOOL  
SCHEDULE OF PRIOR AUDIT FINDINGS**

**Section III – Federal Award Findings and Questioned Costs**

***Reportable Conditions-Noncompliance with Federal Regulation***

**Department of Education**

Cash Management

*Finding 06-2*

*Program:* Title I; CFDA No. 84.010; U.S. Department of Education; Pass through Michigan Department of Education.

*Criteria:* Cash advances must be spent within three days of requesting funds.

*Condition:* The School requested the entire Title I allocation and did not spend the funds within the three day requirement.

*Effect:* The School over requested funds.

*Cause:* Unknown

*Recommendation:* The School should not request funds until the expenditures have been incurred or will be paid for within three days of the request.

- Contact Person(s) Responsible for Correction:  
Nick Olsheski, School Administrator
- Corrective Action Planned:  
The School will not request funding until the funds have been spent.
- Anticipated Completion Date:  
June 30, 2007

*Status:* Staff has not requested funds until the expenditure has been incurred.



September 28, 2007

Board of Education  
Joseph K. Lumsden Bahweting Public School  
Sault Ste. Marie, MI

In planning and performing our audit of the financial statements of Joseph K. Lumsden Bahweting Public School for the fiscal year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered Joseph K. Lumsden Bahweting Public School's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions in the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Governmental Unit's internal control. Accordingly, we do not express an opinion on the effectiveness of the Governmental Unit's internal control.

Our consideration of internal controls was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

During our audit, we noted the following control deficiencies:

#### Time Certifications

During our audit we noted that the District properly tracked and maintained time certifications for employees funded with federal funds. The District needs to improve its tracking of employees who are co-funded by federal funds and compare the actual amount of time spent on federal functions to the amount budgeted for the particular employee. The District is required to amend its federal budget if the actual time spent is significantly different than its original budget in the application. For the year under audit, this comparison was not documented. We tested certain employees and found them to be within a reasonable percentage of the budgeted payroll.

This report is intended solely for the information and use of the Board of Education, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Certified Public Accountants